

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

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JAPANESE SOCIALISTS HURT BY VIOLENT TACTICS

The violence which accompanied leftist-led demonstrations opposing the US-Japan Security Treaty near the Japanese Diet on 27 November has resulted in widespread public criticism and is having an adverse effect on the Japanese Socialist party. The party leadership has been put on the defensive because of its major role in the demonstrations and is reappraising its program for opposing the treaty, which is undergoing revision.

Socialist efforts to pin the blame for the riot on the pro-Communist student organization, Zengakuren, and to claim that the police, on orders of the ruling Liberal-Democratic party, provoked the incident have been discounted by the press and public. A top Socialist official has indicated that the party might have to fall back on propaganda as its main weapon in its campaign against the security treaty.

The Socialists probably will be less enthusiastic for the next demonstration, scheduled for 10 December to coincide with the party's introduction into the Diet of a resolution against the treaty. There have been no indications, however, that the demonstration will be abandoned.

The government has acted quickly to utilize in its

protracted effort to curb leftist excesses the popular criticism aroused by the demonstrations. It is preparing legislation which would ban demonstrations in the vicinity of the Diet and court buildings--a move which will be strongly opposed by the Socialists. A top government party official has stated that his party will pass the measure despite any action undertaken by the opposition.

While there is strong public opposition to any increased police powers, the government does appear to have a favorable opportunity to achieve some limitation on leftist activities, provided it avoids overemphasis on the repression of demonstrations and is not too arbitrary in forcing legislation through the Diet.

The activities of the Socialists and other extreme leftists in opposing the security treaty have suffered from the lack of an issue which would inflame popular opinion against it. The Socialists, however, will continue to maintain pressure on the government in the hope of finding an unpopular issue, such as the introduction of nuclear weapons into Japan or the possibility for involuntary Japanese involvement in hostilities through the deployment of American troops from Japanese bases.

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THE PANAMANIAN SITUATION

Anti-US feeling, recently described by long-time US residents of Panama as stronger than at any time within memory, remains high following renewed mob demonstrations in the capital on 28 November against the Canal

Zone and US installations. The effective role played by the National Guard in dispersing demonstrators is being criticized by opposition politicians in an effort to weaken the De la Guardia administration before

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the May 1960 presidential election. All political factions are expected to continue pressing for additional canal benefits, especially the right to fly the Panamanian flag in the Canal Zone.

A small number of Communists, extreme nationalists, and several Cuban newsmen appear to have been responsible for instigating several hundred Panamanians to stage a three-hour outburst of anti-American violence on 28 November following a large, relatively orderly "reaffirmation of sovereignty" rally. The failure of the outburst to achieve the serious proportions previously predicted can be attributed to an easing of tension following the recent mission of Under Secretary Merchant to Panama, to strong pleas for peace and order by President

de la Guardia and several civic organizations, and particularly to the determination of the National Guard to back up the President's peace plea.

In contrast to its inactivity on 3 and 4 November, the National Guard made every effort to control the situation and proved to be effective. The vigorous guard action on 28 November may have been inspired by reports that the anti-US demonstration would be turned into a general revolt against the regime.

Further anti-US agitation and disturbances may result from continued Panamanian demands for more economic and political concessions in the Canal Zone during the months preceding the May 1960 presidential election.

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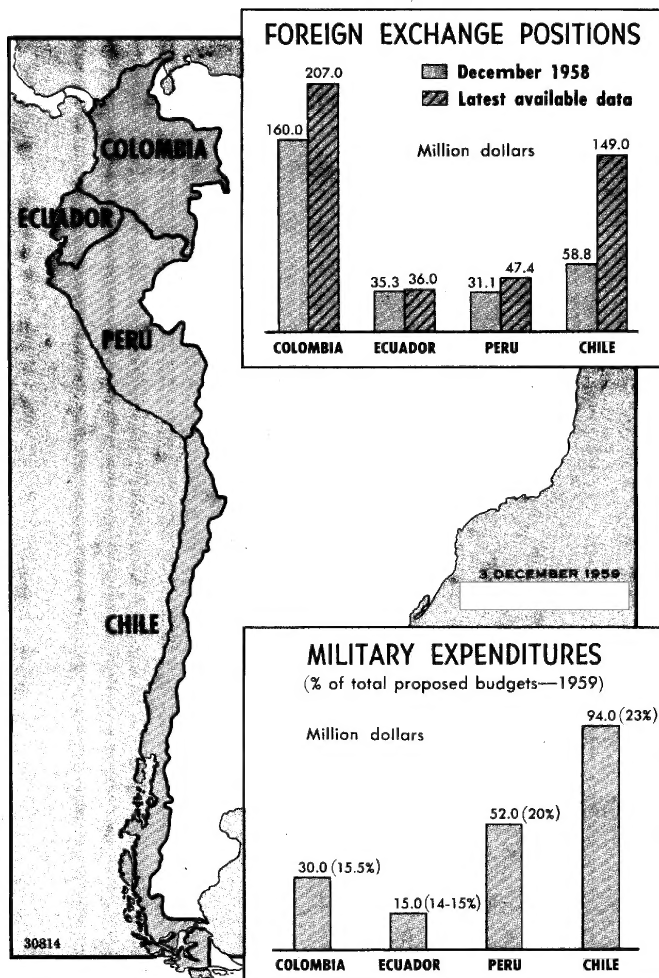
PERU AND CHILE PROPOSE ARMS LIMITATION

Official Peruvian and Chilean suggestions for a South American conference on arms limitation to reduce defense spending in favor of increased economic development funds have interested the governments of Ecuador and Colombia. Political leaders of all four countries seem conscious that any large military purchases could wipe out the recent improvement in their foreign exchange balances. The scheduled area-wide discussion--in accordance with an Ecuadorian suggestion--at the Inter-American Conference in Quito next February is likely to be influenced by the preliminary negotiations initiated by Peru on 27 November.

The disclosure--which seems imminent--of the Peruvian naval minister's purchase in late November of a second British cruiser would probably disrupt the proposed cooperation, however, unless the purchase is canceled by Peru's prime minister, who is publicly committed to the disarmament move.

Public opinion in both Chile and Peru strongly favors arms limitation. The issue was raised by Peru's purchase last October of a British cruiser, which greatly alarmed the Chileans and led President Alessandri to warn the American ambassador in Quito that the Peruvian action was the latest

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This view also prevailed in Peru, where public opinion pressures enabled the Peruvian prime minister to get the three armed forces ministers to agree to the move toward arms limitation.

In addition to the Peruvian purchase, Argentina and Brazil had each bought a carrier from the United Kingdom, notwithstanding the difficult economic conditions in all three countries. Many Latin American countries spend about one fifth of their total budgets for defense, although most of the area's political leaders appear to believe that the peace machinery of the Organization of American States is an effective protection against aggression. Most civilian Latin American governments fear that consistent refusal of military requests for new arms would

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step in a "destructive Latin American arms race." He recalled his suggestion of a year ago that the United States should refuse to sell arms to Latin American nations and should withhold economic aid from those that bought elsewhere. His public statement in late November condemning arms purchases by underdeveloped countries probably made the best impression on Chilean public opinion of any of his official acts.

invite a military coup, particularly if armed forces in neighboring states were growing in relative strength.

The four West Coast governments are among the most conservative in Latin America, and their interest in diverting defense expenditures to economic development projects no doubt arises in part from their reluctance to join the more leftist Latin American governments in looking to the Soviet bloc for economic aid.

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THE EUROPEAN ECONOMIC COMMUNITY

Several compromises affecting the future political and commercial orientation of the European Economic Community (EEC) were reached by the EEC foreign ministers who met in Strasbourg in late November.

The ministers agreed to proceed with the organization of periodic political consultations, long advocated by the French and Italians. Reflecting suspicions primarily on the part of the Benelux countries that the proposed talks might become a vehicle for a French-dominated Continental political bloc within NATO, it was decided that no permanent political secretariat would be set up and that the consultations would be rotated among the capitals of the six member countries. The first of the quarterly foreign ministers' meetings is scheduled for 25 January in Rome.

A similar compromise of French and Benelux views was also reached on EEC tariff and quota changes scheduled for 1960. In effect, it was agreed that the intra-EEC commodity quota enlargements due in January would be extended to nonmember countries, that the internal tariff cuts due in July might be extended to other "most-favored" nations, and that contact would be established with other European countries--primarily the members of the Outer Seven--to discuss trade problems.

This three-part policy, together with a renewed declaration of intent to negotiate

in the GATT a reduction in the EEC's common external tariff, is substantially the program proposed by EEC President Hallstein. By leaving the July tariff generalization on a discretionary basis, however, the ministers in effect gave in to French complaints that across-the-board generalization would involve a "speed-up" of the Common Market for France, but not for the other members.

Despite this concession to Paris, EEC sources believe the proposed acceleration of the development of the Common Market as a whole is by no means dead. According to them, some compromise between the French and Benelux positions can perhaps be worked out--possibly Benelux agreement to earlier institution of the Common EEC tariff, provided the French agree to a 10-percent reduction in the target rates.

Although generally liberal in nature, the ministerial decisions leave largely unresolved the difficult question of relations between the Common Market and the Outer Seven. On this issue, there is apparently increasing disposition to await some clarification of American views. Indicative possibly of a desire to solve the problem in an "Atlantic framework," President Hallstein declared at a press conference after the meetings that "practical policy" would require that the United States be brought into any talks between the Six and the Seven.

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PAN-GERMANISM AND THE LIBERAL PARTY IN AUSTRIA

The strident pro-German character of the recent Salzburg congress of Austria's Liberal (or Freedom) party, typical for the past ten years

both of the Liberal party and its predecessor, the Union of Independents, now may be cause for greater concern than heretofore. Since last May's

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national elections, when they received 7.7 percent of the vote and won eight seats in the 165-seat lower house, the Liberals have shown signs of slow recovery from the long decline which followed their success in winning 16 seats in 1949. They have also shown some strength in local elections, and recently claimed a 25-percent increase in party membership.

During the Salzburg congress, the party's energetic young leader, Friedrich Peter, professed loyalty to the Austrian republic as a "homeland," but he also declared that "safeguarding the German character of Austria" is a major Liberal objective. He condemned as "nonsense" the concept of an Austrian nation in a country which "in spirit, mind, and soul has been German for a thousand years."

Whether this still-limited revival of pan-Germanism will in the future become a menace to Austrian stability will depend as much on the outlook for government coalition of the People's and Socialist parties as it will on the Liberal organization itself. In the past, the Liberals have tended to attract ultraconservatives from the People's party, anticlericals from the Socialist, and

ex-Nazis from both--only to be deprived of real influence on government policies by the inherent strength of the coalition.

If, however, the Liberals now are succeeding in overcoming their past factionalism, they may be in a better position to capitalize on the weaknesses which have become apparent in the coalition--particularly the disunity in the People's party and its growing fear of the Socialists' strength.

In the meantime, there are several foreign policy issues which the Liberals may exploit to their advantage. Untroubled by the problem of Soviet hostility toward the European Economic Community (EEC) or the alleged danger of increasing West German economic influence in Austria, they have come out strongly for Austrian EEC association. This is already a popular stand with Austrian business interests, and it may become increasingly so if the European Free Trade Area (Outer Seven) does not produce the benefits the government has promised.

The Liberals may be similarly benefited by Austria's dispute with Italy over the South Tirol--waiting to press for more radical measures in the likely event Foreign Minister Kreisky should fail to win satisfactory concessions.

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PART III**PATTERNS AND PERSPECTIVES****EGYPT'S ECONOMY UNDER NASIR**

President Nasir's regime has halted, at least temporarily, the steady deterioration in Egyptian living standards which characterized the quarter century preceding the revolution in 1952. This improvement has occurred partly through a redistribution of income favoring urban workers particularly, through the expenditure of large amounts of foreign exchange reserves, and through a substantial increase in the national debt.

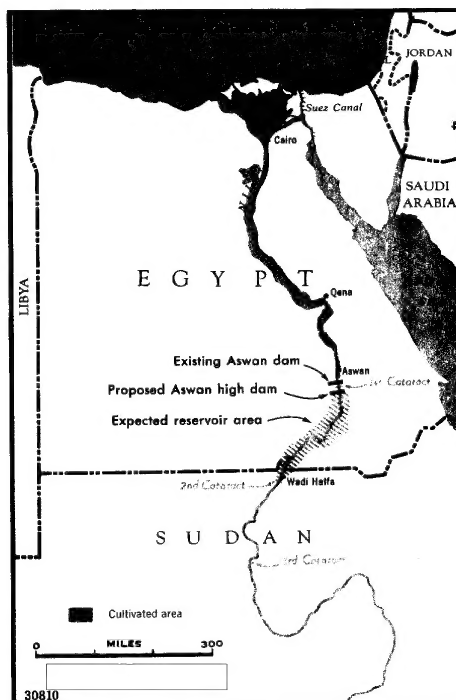
There has been a major shift in investment from the luxury housing and public works programs of earlier regimes to projects which yield returns quickly. Increases in investment and in agricultural and industrial production have been impressive but not large enough to assure economic growth at a rate faster than that of the population. Thus, despite the optimistic goals set forth in Egypt's Second Five-Year Plan (1960-64), prospects for the future are not bright. The Syrian region has separate long-term economic development schemes of its own.

Assets and Liabilities

Egypt is extremely poor in natural resources. Although it occupies 386,198 square miles, about 96 percent of the area is desert. Thus 25,500,000 people are crowded into the 13,900-square-mile Nile Valley, which is some 900 miles in length but only from one to 12 miles wide for most of this distance. Below Cairo the Nile delta fans out to about 125 miles in width at the Mediterranean coast.

From the 1920s to 1952, Egyptian living standards had continually declined, partly

because of the feudal character of the society, but mostly--since industry was relatively unimportant--because of the population pressure on the narrow and virtually unexpandable agricultural base. The population now is increasing at a rate of 2.5 percent, by more than 600,000 people annually. Although Egypt's crop yields per acre are among the highest in the world,



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its agriculture is inefficient, since it employs at near-subsistence levels an agricultural labor force somewhat larger than that of the United States.

Further expansion of farm land can occur only at tremendous cost. The Aswan High Dam will bring an additional 1,000,000 acres into production over the next 15 years, but the cost will exceed \$1.2 billion. Because

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of the population increase, the High Dam's addition to the 6,383,700 acres now irrigated will not prevent the amount of farm land per capita from declining even further.

Aside from modest petroleum reserves and some iron ore, the country is virtually devoid of natural resources in commercial quantities. Coal must be imported from Europe for the new steel mill, which probably puts the plant into the category of an economic liability, although it is widely viewed in Egypt as a major achievement of the revolution.

Egypt's population is not trained in the skills necessary for industrial expansion. New plants have required extensive training programs for their labor forces, with the result that operations have been relatively inefficient and probably will continue so for some time.

Egypt's almost complete dependence on cotton as an earner of foreign exchange is a major liability of the economy which the Nasir regime inherited. In the short run, the surest way to add to the national income is to increase the production of cotton and especially extra-long-staple cottons. This was successful, notably in 1954 and 1957. Like most primary commodities, however, cotton is not a dependable foreign exchange earner, for sales are subject to wide swings in demand. For Egypt, which specializes in long-staple cottons, this is especially true, since the growth of the world demand for this type of cotton has been falling off. For the next several years, however, the country will have little choice but to continue to place heavy emphasis on cotton production.

Agricultural Reform

The revolutionary regime in 1952 was convinced that all of Egypt's economic ills could

be blamed on the feudalistic partnership of the landowners and foreigners. The problem of reform was tackled immediately with few inhibitions. Foreign businessmen, however, were not ousted on a large scale until the 1956 Suez crisis, which brought with it the side effects of Egyptianization of businesses and sequestration of foreign assets.

One of the first acts of the revolutionary government was to destroy the economic and political power of the landowners and end the feudalistic system in agriculture. The goals set forth in the Egyptian Agrarian Reform Law of September 1952 were achieved in late 1958, by which time all land in excess of 207.6 acres owned by individuals had been seized and distributed to new owners. Over 586,000 acres, almost 10 percent of Egypt's agricultural land, were redistributed. By 1960 the government plans to distribute an additional 207,600 acres now held in trust by Moslem institutions.

Agricultural output of major field crops increased about 14 percent between 1952 and 1957, but this resulted largely from increased use of fertilizer and improved seed rather than from an increase in acreage or from improved cultivation techniques.

A significant aspect of the land reform program was a substantial reallocation of income. It has been estimated that before the revolution about 30 percent of the national income went to a few individuals as "unearned" income, primarily in the form of land rents. The government, chiefly through taxation, has transferred a large amount of this income to its own budget and used it to finance welfare projects and defense.

Ousting the Foreigner

Egyptianizing the economy began in earnest with the nationalization of the Suez Canal

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Company in 1956. This action won for Egypt a major source of badly needed foreign exchange--in 1958 about \$120,000,000, or four times the amount received before nationalization. During and after the Suez crisis, the bulk of foreign business was subjected to some form of Egyptian control.

Foreign firms now have been largely eliminated from banking and insurance, while in other industries government participation has been fostered through the establishment of an Economic Organization to provide a framework for government control of the economy. Since the formation of this organization in 1957, there has been a steady expansion of state control over business. Until very recently, foreign investment was discouraged, particularly by Minister of Industry Sidky, whose anti-foreign bias blocked foreign investment in several specific instances. Sidky's apparently declining influence may presage new government interest in encouraging foreign investment.

Egyptianization has not been without cost to Cairo. Payments to Britain alone for properties taken over amount to about \$80,000,000, and since 1956 Egypt has lost many of its traditional Western cotton markets.

Industry

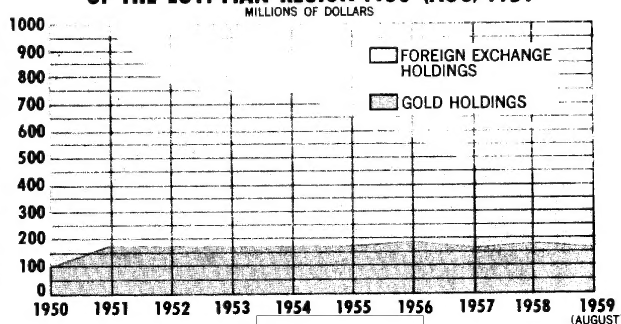
According to official statistics, Egyptian industrial output rose 38 percent from 1952 to 1957, or an average of 8 percent annually, and this rate of increase probably continued through 1958 and 1959. Investment in industry has increased markedly from \$43,000,000 in 1952 to about \$144,000,000 in 1958.

Despite this increase, investment appears to be too low to ensure satisfactory growth of the economy. Gross investment in 1957 probably amounted to about \$280,000,000, or about 8 to 10 percent of gross national product; gross investment would have to be increased to nearly 20 percent of gross national product to expand production as fast as the population is growing. Not only is total investment in Egypt too low in terms of the gross national product, but there is some evidence that the share of income devoted to investment may have fallen recently.

Consumption Expands

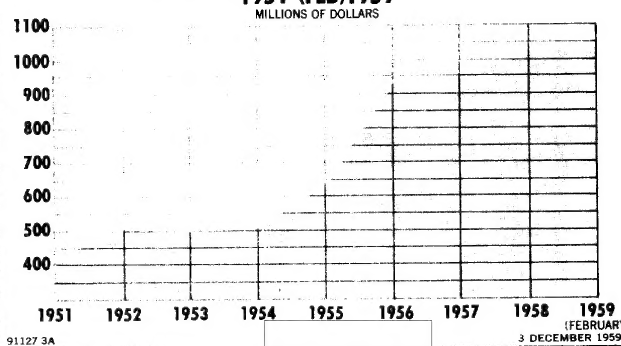
Consumption in Egypt is admittedly low but still too high to permit the capital accumulation required for rapid economic development. Much of the increased consumption has been financed by spending the country's foreign exchange reserves, largely acquired during World War II, and by increasing

**GOLD AND FOREIGN EXCHANGE HOLDINGS
OF THE EGYPTIAN REGION 1950-(AUG) 1959**



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**OUTSTANDING DEBTS OF THE EGYPTIAN REGION
1951-(FEB)1959**



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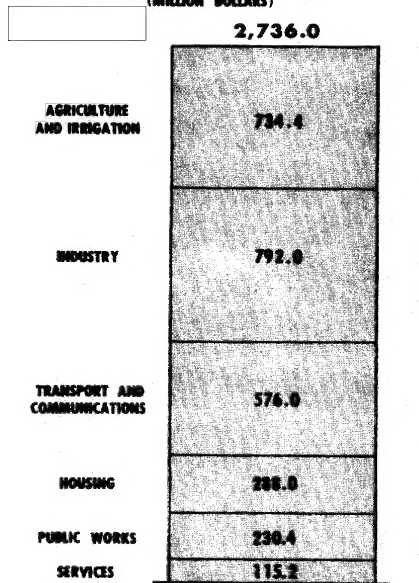
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the national debt. At the time of the revolution in 1952, Egyptian gold and foreign exchange holdings amounted to about \$900,000,000; by July 1959 these had fallen to \$382,000,000. Similarly, the government's debts amounted to about \$475,000,000 in 1952 but had soared to more than one billion dollars by February of this year.

Development Plans

Nasir's overly optimistic goal of doubling the national income in the next five years is embodied in the \$2.736 billion Second Five-Year Plan (1960-64).

The foreign exchange costs of the plan are estimated to be

**EXPENDITURES IN EGYPTIAN REGION'S
SECOND FIVE-YEAR PLAN**
(MILLION DOLLARS)


\$1.152 billion, and Cairo claims that more than half--\$567,000,000--is already accounted for. Complete details are not yet available, but the plan apparently includes about \$180,000,000 for expansion of the Suez Canal and at least \$288,000,000 for the Aswan High Dam and related schemes. In the industrial sector, 125 projects are involved, including

a fertilizer factory at the existing Aswan Dam, an automobile and truck plant, and various chemical and cement factories.

Credits from the Communist bloc are expected to play a major

**SOURCES OF FINANCING FOR EGYPTIAN
REGION'S SECOND FIVE-YEAR PLAN**

	AMOUNT (MILLION \$)	PERCENT
USSR (ASWAN HIGH DAM)	100	19.4
USSR (GENERAL ECONOMIC)	175	33.9
EAST GERMANY	30	5.8
SUEZ CANAL LOAN FROM WORLD BANK (EXPECTED)	56.5	10.9
JAPAN	28	5.4
WEST GERMANY	127	24.6
TOTAL	516.5	100.0

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role in financing exchange costs of the development plan. The Communist countries are committed to provide about 54 percent of the foreign exchange credits so far arranged, and additional loans appear likely.

Progress and Prospects

The regime has registered impressive gains in agricultural and industrial production since 1952. Industrial output has increased about 50 percent in established industries, and a number of new plants have been constructed. Agricultural output has also increased. These improvements, plus heavy defense spending and increased consumption, have been made without serious inflation. The groundwork has been laid for expansion along the lines envisaged in the Second Five-Year Plan, but it appears extremely unlikely that the goals of the plan will be met within the five-year period. The increase in production thus far is not attributable to the substantial economic aid from the Communist bloc; however, Communist assistance will be of major importance in the Second Five-Year Plan. Cairo's improving relations with the West, promising an increasing availability of Western funds, should also aid implementation of the plan.

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The Nasir regime could have made a sounder start on industrialization had it not felt compelled for security reasons to spend large sums for the military and if it had not felt obliged for political reasons

to allow an immediate improvement in living standards. There is a possibility, that the demands of economic development will cause some decline in living standards, especially in urban areas, during the next few years.

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SPAIN'S ECONOMIC DIFFICULTIES

Spain's economic stabilization program, inaugurated in July, appears to have made an auspicious start toward curbing inflationary pressures, stabilizing prices, retarding the rise in living costs, ending the drain on gold and foreign exchange reserves, and eliminating the country's serious balance-of-payments deficit. The program, which is sponsored by the finance and commerce ministers with the assistance of the Organization for European Economic Cooperation (OEEC) and the International Monetary Fund (IMF), has brought Spain over \$400,000,000 in financial aid. The program faces strong opposition from influential vested interests

and is handicapped by Franco's failure to support it publicly.

Curbs on bank credit to private industry and the reluctance of businessmen to make future commitments have slowed economic activity. The feeling is widespread among the public that the government will not be able to carry out the program efficiently and fairly. Unemployment has increased substantially, and the great majority of workers have lost up to a fourth of their take-home pay because of shorter hours.

Should the economy deteriorate so seriously this winter as to pose a threat to political stability, the regime might

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delay further implementation of the program. This would probably result in a worsening of the problems it is now seeking to combat.

Economic Recession

The decline in industrial output and employment evident early in 1959 has been intensified since stabilization went into effect. This trend has been particularly apparent in the major industrial centers of Barcelona, Bilbao, and Valencia and has been most marked in the textile, paper, and leather industries. A number of firms have closed down, and others have suspended payments. Tight credit, reduced domestic demand, and a lack of foreign exchange for imports of machinery and raw materials have contributed heavily to this situation, but a major factor is the uncertain outlook for business. Many businessmen have adopted a "wait-and-see" attitude and are avoiding new commitments.

Layoffs to cut production costs have swelled the number of unemployed. Nearly all industries have eliminated overtime, which usually averaged two to four hours daily, and many are not working full time. Because of these cuts, take-home pay is inadequate for workers' basic needs, even though the rise in the cost of living from January to October 1959 has been moderate compared with that of the past two years.

Nearly one tenth of the total labor force is unneeded but is maintained on the job because the law makes it very difficult for permanent employees to be discharged. Labor is increasingly concerned that management will find a way to release these surplus workers, who reportedly number some one

million. Some firms are said to have instituted bankruptcy proceedings as a move in this direction, and many industrialists have been clamoring for remedial governmental action. One step toward a solution is a recent government decree providing some unemployment insurance.

The government continues to oppose an across-the-board pay raise. Only about 265,000 workers have gained economic benefits through the collective bargaining system which went into effect late in 1958. The government refuses to approve any collective agreements which provide for price increases to offset wage boosts, and for this reason it recently turned down an agreement which would have benefited over 200,000 workers in Barcelona's cotton textile industry.

Attitude of the Government

The government's attitude on the stabilization program has been ambivalent. Some officials, including Finance Minister Navarro Rubio, enthusiastic over the favorable initial results, believe that such restrictive measures as the curbs on private credit can now be relaxed. Others have shown increasing concern that the anti-inflationary aspects of the program will produce economic stagnation. They feel that private banks and business should be encouraged to take advantage of the \$262,000,000 allowed for credit expansion in 1959, almost all of which is still available.

There are indications that Navarro Rubio, seemingly the chief exponent of the program, is encountering difficulties from other cabinet members who fear political repercussions from the economic adjustments necessitated by the program

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and therefore want to increase public expenditures above the \$1.905 billion ceiling set for 1959. In addition, there is opposition from vested interests apprehensive over the competition generated by liberalized trade and a freer foreign investment climate and from nationalists who prefer that Spain remain politically and economically isolated.

The major shortcoming, however, has been the government's continued failure to explain clearly to labor and business the objectives and implications of the plan. Government officials seem unaware of the need to develop public confidence and support. Even more serious, Franco has refrained from putting his personal leadership and prestige behind the plan, so that in the event of a serious wave of popular discontent over its impact or the plan's failure, its chief proponents can be made the scapegoats.

Outlook

The future of the stabilization program is likely to de-

pend mainly on the government's awareness of the need to build up public confidence in it and to convince business that the sacrifices demanded of it are temporary. The government is not agreed on what the program really means or on the next steps to be taken, particularly with regard to decisions on future economic policy to stimulate plans for private investment. Some remedial action is likely to be suggested by the OEEC mission which is scheduled to arrive in Madrid on 4 December to evaluate the effect of the measures taken thus far under the program.

The threat of rising unemployment, which some fear may reach 500,000 by early 1960, will generate social unrest and possibly widespread worker disturbances. Should political pressures force a general wage rise, removal of the curbs on bank credit to the private sector, or an increase in public spending, the program would be in serious difficulties. Such steps would be tantamount to rejecting the plan and would probably result in a renewal of the inflationary cycle.

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